



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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December 3, 2009

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM:

Wendy L. Watanabe
Auditor-Controller

SUBJECT: **HUB CITIES CONSORTIUM CONTRACT REVIEW – A COMMUNITY
AND SENIOR SERVICES WORKFORCE INVESTMENT ACT
PROGRAM PROVIDER – FISCAL YEAR 2007-08**

We completed a program, fiscal and administrative contract review of Hub Cities Consortium (Hub Cities or Agency), a Community and Senior Services (CSS) Workforce Investment Act (WIA) Program provider.

Background

CSS contracts with Hub Cities to provide and operate the WIA Adult, Dislocated Worker, Rapid Response and Youth Programs. The WIA Adult and Dislocated Worker Programs assist individuals to obtain employment, retain their jobs and increase their earnings. The WIA Rapid Response Program provides assistance to companies that are facing a reduction in their work force and assists the soon-to-be dislocated workers cope with career transitions by providing orientation seminars, workshops and materials. The WIA Youth Program is a comprehensive training and employment program for in-school and out-of-school youth ages 14 - 21 years old. Hub Cities is located in the First and Second Districts.

Hub Cities was compensated on a cost reimbursement basis and CSS paid Hub Cities \$3,761,336 for Fiscal Year (FY) 2007-08.

Purpose/Methodology

The purpose of our review was to determine whether Hub Cities complied with its contract terms and appropriately accounted for and spent WIA funds in providing the services outlined in their County contract. We interviewed Agency staff and evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines.

Results of Review

Hub Cities billed CSS \$419,790 in questioned costs during FY 2007-08. Specifically, Hub Cities billed CSS \$319,866 in unsupported program expenditures and \$99,924 in unallowable program expenditures. Unsupported and unallowable expenditures were also noted during the prior three years' monitoring reviews.

In addition, Hub Cities did not always comply with WIA and County contract requirements. Specifically, Hub Cities did not:

- Properly prepare bank reconciliations. Specifically, the book balance on the reconciliations did not agree with the cash balances in the general ledger and the bank reconciliations were not signed or dated by the preparer as required. Similar findings were also noted during the prior year's monitoring review.
- Maintain sufficient internal controls over gift cards and other liquid assets. This finding was also noted during the prior year's monitoring review.
- Obtain criminal clearances for all ten employees sampled. This finding was also noted during the prior three year's monitoring reviews.
- Obtain at least 85% of their planned performance outcomes as required by the County contract for the WIA Youth Program. Specifically, Hub Cities trained only 20% of their planned training outcomes, for the WIA Youth Program.
- Report the participants' program activities on the Job Training Automation System for nine (26%) of the 35 participants sampled.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with Hub Cities and CSS. In their attached response, Hub Cities concurred with all of our findings and recommendations with one exception. Specifically, Hub Cities indicated that maintenance costs (also referred to as facility operating costs) for the common areas are estimated based on the previous fiscal year

and that documentation to support them is not available until 60 days after the end of the fiscal year. However, to date, Hub Cities has not provided the documentation to support the estimated maintenance costs.

We thank Hub Cities for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:JET:DC:EB

Attachment

- c: William T Fujioka, Chief Executive Officer
- Cynthia D. Banks, Director, Community and Senior Services
- Alberto Uribe, Executive Director, Hub Cities Consortium
- David Silva, Chairperson, Hub Cities Consortium
- Public Information Office
- Audit Committee

**WORKFORCE INVESTMENT ACT PROGRAM
HUB CITIES CONSORTIUM
FISCAL YEAR 2007-08**

ELIGIBILITY

Objective

Determine whether Hub Cities Consortium (Hub Cities or Agency) provided services to individuals that meet the eligibility requirements of the Workforce Investment Act (WIA).

Verification

We reviewed the case files for 35 (4%) (ten Adults, ten Dislocated Workers and 15 Youth) of the 856 participants that received services from July 2007 through June 2008 for documentation to confirm their eligibility for WIA services.

Results

All 35 participants sampled met the eligibility requirements for the WIA programs.

Recommendation

None.

BILLED SERVICES/CLIENT VERIFICATION

Objective

Determine whether the Agency provided the services in accordance with the County contract and WIA guidelines. In addition, determine whether the participants received the billed services.

Verification

We reviewed the documentation contained in the case files for 35 (4%) participants that received services from July 2007 through June 2008. We also interviewed five Adults, four Dislocated Workers and four Youth participants/guardians.

Results

Youth Program

The four participants/guardians interviewed stated that the services they received met their expectations. However, Hub Cities did not always comply with WIA and County contract requirements. Specifically, Hub Cities:

- Did not report the participants' program activities, such as leadership training into the Job Training Automation (JTA) System for three (20%) of the 15 participants sampled. The State of California Employment Development Department and the Department of Labor use the JTA System to track WIA participants' activities. Subsequent to our review, Hub Cities updated the JTA System to accurately reflect the program activities provided to the three participants.
- Did not complete the Individual Service Strategy (ISS) plan as required by WIA guidelines for one (7%) of the 15 participants sampled. Specifically, Hub Cities did not document the justification for the tutoring services or the leadership training provided on the ISS plan as required by the WIA guidelines. The ISS plan is used to track the needs and services of the program participants and their progress towards achieving established goals. This finding was also noted during the prior year's monitoring review. Subsequent to our review, Hub Cities completed the ISS plan as required.
- Did not maintain adequate documentation, such as approved timecards to support the participants' wages for two (13%) of the 15 participants sampled. Specifically, the worksite supervisor did not sign the timecards and the Agency did not document their verification of the hours worked on the timecards to support the expenditures. Subsequent to our review, Hub cities provided additional documentation to support the participants' wages.
- Continued to provide work experience to one (7%) of the 15 youths sampled after the youth's work permit had expired. Subsequent to our review, Hub Cities provided an updated work permit for the participant.

Adult and Dislocated Worker Programs

The nine participants interviewed stated that the services they received met their expectations. However, Hub Cities did not accurately report the participants' program activities, such as supportive services and the Development of the Individual Employment Plan on the JTA System as required for six (30%) of the 20 participants sampled.

Recommendations

Hub Cities management:

- 1. Ensure that staff accurately update the Job Training Automation System to reflect the participants' program activities.**
- 2. Ensure that staff complete Individual Service Strategy plans.**
- 3. Maintain adequate documentation to support expenditures.**

4. **Ensure that the participants' work permits are valid during the time the participants are provided with work experience.**

PERFORMANCE OUTCOME REVIEW

Objective

Determine whether the Agency met the planned performance outcomes as outlined in the County contract and accurately reported the performance outcomes to the Workforce Investment Board (WIB). The performance outcomes included measuring the number of participants that enrolled in the program, exited the program, completed training and/or gained employment.

Verification

We compared the reported Fiscal Year (FY) 2007-08 actual performance outcomes to the planned performance outcomes outlined in the County contract and to the program activities reported on the JTA System.

Results

Hub Cities achieved their planned performance outcomes for the WIA Adult and Dislocated Worker Programs. However, Hub Cities did not obtain at least 85% of their planned performance outcomes for the WIA Youth Program. Specifically, Hub Cities trained only 20% of the number of youth they planned to train for the WIA Youth Program.

Recommendation

5. **Hub Cities management ensure that the planned performance outcomes are met as required by the County contract.**

CASH/REVENUE

Objective

Determine whether cash receipts and revenues are properly recorded in the Agency's records and deposited timely in their bank account. In addition, determine whether there are adequate controls over cash, petty cash and other liquid assets.

Verification

We interviewed Agency personnel and reviewed financial records. We also reviewed the Agency's June 2008 bank reconciliations for two bank accounts.

Results

Hub Cities did not properly prepare the June 2008 bank reconciliations. Specifically, the book balance on the reconciliations did not agree with the cash balances in the general ledger and the bank reconciliations were not signed or dated by the preparer as required. Similar findings were also noted during the prior year's monitoring review.

Hub Cities did not maintain sufficient internal controls over gift cards and other liquid assets. Specifically, Hub Cities had one employee who authorized the gift card purchases, received the gift cards, maintained custody of the gift cards and distributed the gift cards. The same employee also conducted the monthly reconciliation of the gift card usage. This finding was also noted during the prior year's monitoring review.

All gift cards and other liquid assets were accounted for as of June 30, 2008. However, the number of gift cards maintained in Hub Cities' inventory seemed excessive. At the time of the review, Hub Cities maintained an inventory of 1,525 gift cards, totaling \$17,098. Based on their issuance log, the Agency issued approximately 150 gift cards per month. To reduce the risk of loss due to theft or misuse, Hub Cities should maintain a gift card inventory level equal to two months of usage. A similar finding was also noted during the prior year's monitoring review.

Subsequent to our review, Hub Cities corrected their June 2008 bank reconciliations and provided a revised policy that included sufficient internal controls over gift cards and other liquid assets.

Recommendations**Hub Cities management:**

- 6. Ensure that bank reconciliations are completed accurately and adequately supported.**
- 7. Ensure that the preparer signs and dates the bank reconciliations as required.**
- 8. Ensure that there is adequate segregation of duties over gift cards and other liquid assets.**
- 9. Maintain a gift card inventory equal to two months usage.**

COST ALLOCATION PLAN

Objective

Determine whether Hub Cities' Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the Plan to appropriately allocate shared program expenditures.

Verification

We reviewed the Cost Allocation Plan and reviewed a sample of expenditures incurred by the Agency in October 2007 and January 2008 to ensure that the expenditures were properly allocated to the Agency's programs.

Results

Hub Cities' method of allocating shared program expenditures did not comply with Attachment A, Section F.1 and Attachment C, Section A.1 of Office of Management and Budget (OMB) A-87 or Part C, Section 2.0 of the Auditor-Controller Contract Accounting and Administration Handbook. Specifically, Hub Cities' allocated monthly shared expenditures based on a ratio of participants receiving services within each program to total participants served. However, this approach does not allocate shared expenditures based on the benefits each program received from the expenditures. For example, a program that did not incur any activity during a month would not be allocated shared expenditures even though the program's administrative staff benefited from the shared expenditures. A similar finding was also noted in the prior year's monitoring review.

Community and Senior Services (CSS) concurred that the methodology used by Hub Cities to allocate rent and security expenditures was unacceptable.

Subsequent to our review, Hub Cities provided a revised Cost Allocation Plan. However, the Plan appeared incomplete. For example, the Plan did not adequately describe the methodologies the Agency plans to use to allocate all shared program expenditures.

Recommendations

Hub Cities management:

- 10. Revise the Agency's Cost Allocation Plan to allocate shared program expenditures using a methodology that more accurately allocates costs to the programs that benefited from the expenditures.**
- 11. Review and reallocate the FY 2007-08 shared program expenditures based on the revised Cost Allocation Plan and repay CSS for any over billed amounts.**

EXPENDITURES/PROCUREMENT**Objective**

Determine whether program related expenditures are allowable under the County contract, properly documented and accurately billed.

Verification

We interviewed Agency personnel, reviewed financial records and reviewed documentation for 100 non-payroll expenditure transactions billed by the Agency for October 2007 and January 2008, totaling \$148,188. Based on the initial results, we expanded our sample of non-payroll expenditure transactions billed by the Agency during FY 2007-08 by an additional \$707,833 in expenditures.

Results

Hub Cities billed CSS \$301,197 (\$114,101 + \$157,777 + \$29,319) in undocumented expenditures and \$94,913 (\$43,645 + \$17,410 + \$22,320 + \$10,758 + \$780) in unallowable expenditures during FY 2007-08. Specifically, Hub Cities:

Undocumented - \$301,197

- Billed CSS \$114,101 in undocumented shared program expenditures. As indicated above, Hub Cities billed CSS shared program expenditures based on an unsupported and inappropriate cost allocation method. Similar findings were also noted during the prior year's monitoring review.

Subsequent to our review, Hub Cities provided additional documentation. However, the documentation provided did not adequately support the shared program expenditures. Specifically, Hub Cities did not provide source documentation, such as the Agency's general ledgers, payroll registers and/or detailed floor plans, to support the direct and indirect salary totals or the square footage used to allocate shared program expenditures.

- Billed CSS \$157,777 in unsupported facility operating costs in FY 2007-08. Specifically, Hub Cities did not provide appropriate documentation, such as the breakdown of the operating costs for common areas to support the facility expenditures. According to the lease agreement, Hub Cities is required to pay 50% of the facility's actual operating costs. However, Hub Cities was not able to provide the facility's actual operating costs. Subsequent to our review, Hub Cities provided additional documentation. However, the documentation provided was not the FY 2007-08 facility operating costs. The documentation was for FY 2006-07.
- Billed CSS \$55,407 in unsupported insurance, training and consultant expenditures. Specifically, Hub Cities did not maintain documentation to support the allocations

used, original invoices, receipts and/or contracts. Subsequent to our review, Hub Cities repaid CSS \$4,850 and provided additional documentation to support \$21,238 of the \$55,407 undocumented expenditures, resulting in \$29,319 (\$55,407 - \$4,850 - \$21,238) in questioned costs.

Unallowable - \$94,913

- Billed CSS \$50,603 for 100% of the security and telephone expenditures even though the Employment Development Department (EDD) occupied space and used facility services. Subsequent to our review, Hub Cities provided documentation to support \$6,958 of the \$50,603, resulting in \$43,645 (\$50,603 - \$6,958) in questioned costs.
- Billed CSS \$17,410 for training expenditures in excess of the amount specified on the Intrastate Resources and Information Network. According to WIA Directive D-DWA-00-003, the County expects that each contractor will ensure that the amount paid for training does not exceed the amount specified on the Intrastate Resources and Information Network.
- Did not reimburse CSS \$22,320 for payments received from EDD. Specifically, EDD paid Hub Cities \$22,320 for their share of FY 2005-06 and FY 2006-07 security expenditures. Instead of refunding CSS the \$22,320 for the overbilled amounts, Hub Cities applied a credit to the FY 2007-08 invoice. However, the County contract Section 3.11, indicates that overpayments received shall be returned to the County by contractor within thirty (30) days of receiving notification of such overpayment from the County, or may be set off at County's election against future payments due to the contractor. Hub Cities did not obtain authorization from CSS to set off the overpayments against future payments as required.
- Inappropriately billed CSS \$10,758 for expenditures incurred in FY 2008-09.
- Billed CSS \$780 in travel expenditures in excess of the allowable County's per diem rates. According to the Auditor-Controller Contract Accounting and Administration Handbook, Part A, Section 3.2, "reimbursement for actual receipts or per diem rates for meal expenses shall not exceed the maximum County's reimbursement rate for employees."

Similar findings were also noted during the prior year's monitoring review.

Recommendations

Hub Cities management:

Refer to Recommendation 3.

12. Repay CSS \$396,110 (\$301,197 + \$94,913) or provide adequate documentation to support the program expenditures.
13. Ensure that shared program expenditures are appropriately allocated and in compliance with the County contract and WIA guidelines.
14. Request reimbursement for allowable WIA related expenditures.
15. Ensure that the amounts billed to CSS for training do not exceed the amounts specified on the Intrastate Resources and Information Network.
16. Return overpayments to CSS or obtain authorization from the County to set off the overpayments against future payments as required by the County contract.
17. Ensure that expenditures charged to the WIA programs are for costs incurred during the contract period.
18. Ensure that reimbursement for actual receipts or per diem rates do not exceed the maximum County's reimbursement rate for employees as required.

ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE

Objective

Determine whether the Agency maintained sufficient internal controls over its business operations. In addition, determine whether the Agency is in compliance with other program and administrative requirements.

Verification

We interviewed Agency personnel, reviewed their policies and procedures manuals, conducted an on-site visit and tested transactions in various non-cash areas such as expenditures, payroll and personnel.

Results

Hub Cities did not always comply with WIA and County contract requirements. Specifically:

- Hub Cities automobile insurance did not cover owned vehicles as required. Section 2.2 of the County contract requires the automobile liability insurance to include coverage for all automobiles whether owned, hired or non-owned.

- Hub Cities did not obtain three documented quotations for the items purchased over \$1,000 as required by WIA guidelines. For example, Hub Cities purchased software in October 2007 for \$2,217 and did not document three price quotes as required.
- Hub Cities' accounting and personnel policies and procedures manuals did not address policies and procedures on reconciliations for subsidiary ledgers, cash management, bonding, child abuse prevention and reporting and procurement. This finding was also noted during the last two prior years' monitoring reviews.
- Hub Cities' travel policy exceeded the County's maximum reimbursement rate for employees. For example, Hub Cities' per diem rate for meal expenses exceeded the County's maximum reimbursement rates.

Recommendations

Hub Cities management:

19. Obtain automobile insurance coverage as required by the County contract.
20. Ensure that staff obtain at least three documented price quotes for purchases over \$1,000.
21. Ensure that the Agency's accounting, personnel, procurement and travel policies and procedures manuals are in compliance with the regulatory guidelines.

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether Hub Cities' fixed assets and equipment purchases made with WIA funds are used for the WIA programs and are safeguarded.

Verification

We interviewed Agency personnel and reviewed the Agency's fixed assets and equipment inventory listing. In addition, we performed a physical inventory and reviewed the usage of 21 items purchased with WIA funds, totaling \$46,461.

Results

Generally, Hub Cities used the equipment purchased with WIA funds for the WIA programs and the assets were safeguarded. However, Hub Cities did not properly tag all 21 items sampled with County property tags as required by the County contract.

Subsequent to our review, Hub Cities received the County property tags from CSS and tagged the items.

Recommendation

- 22. Hub Cities management ensure that all fixed assets and equipment are properly tagged with County property tags.**

PAYROLL AND PERSONNEL

Objective

Determine whether payroll expenditures were appropriately charged to the WIA programs. In addition, determine whether personnel files are maintained as required.

Verification

We traced payroll expenditures for 28 employees and 129 participants totaling \$292,740 for August 2007 and January 2008 to the Agency's payroll records and time reports. We also interviewed six employees and reviewed the personnel files for ten employees assigned to the WIA programs.

Results

Hub Cities billed CSS \$2,931 (\$3,584 - \$653) in unsupported payroll expenditures and \$600 in unallowable payroll expenditures. Specifically, Hub Cities:

- Did not provide the timecards and payroll registers to support \$3,584 in payroll expenditures. Subsequent to our review, Hub Cities provided additional documentation to support \$653 of the \$3,584 unsupported payroll expenditures.
- Billed CSS \$600 in participant wages paid to non-WIA participants.

In addition, Hub Cities did not obtain criminal clearances for all ten employees sampled. This finding was also noted during the prior three years' monitoring reviews.

Recommendations

Hub Cities management:

Refer to Recommendations 3 and 14.

- 23. Repay CSS \$3,531 (\$2,931 + \$600) or provide adequate documentation to support the payroll expenditures.**

- 24. Obtain criminal clearances for all employees.**

CLOSE-OUT REVIEW**Objective**

Determine whether the Agency's FY 2006-07 final close-out invoices for the WIA Adult, Dislocated Worker, Rapid Response and Youth Programs reconciled to the Agency's financial accounting records.

Verification

We traced Hub Cities' FY 2006-07 general ledgers to the Agency's final close-out invoices for FY 2006-07. We also reviewed a sample of expenditures incurred in April, May and June 2007.

Results

Hub Cities billed CSS \$15,738 (\$16,417 + \$361 - \$1,040) in undocumented expenditures and \$4,411 (\$3,150 + \$1,033 + 288) in unallowable expenditures. Specifically, Hub Cities:

- Did not maintain appropriate documentation, such as original vendor invoices and agreements, to support \$16,417 of expenditures made in April, May and June 2007. Subsequent to our review, Hub Cities provided additional documentation to support \$1,040 of the \$16,417 unsupported expenditures.
- Billed CSS for 100% of shared program expenditures in June 2007 instead of allocating to all the benefiting programs. Subsequent to our review, Hub Cities allocated the shared program expenditures among the programs benefited and agreed to repay CSS \$361.
- Billed CSS \$3,150 in FY 2006-07 for expenditures incurred in FY 2007-08.
- Billed CSS \$1,033 in non-WIA related educational tuition and travel expenditures.
- Billed CSS \$228 in travel expenditures in excess of the allowable County's per diem rates.

Recommendations**Hub Cities management:**

Refer to Recommendations 3, 13, 14, 17 and 18.

25. Repay CSS \$20,149 (\$15,738 + \$4,411) or provide adequate documentation to support the program expenditures.



Jeff Kennelly
Executive Director

Via Email and Messenger

June 12, 2009

Board of Directors:

David Silva
Chairman

Henry C. Gonzalez
Vice-Chairman

Wendy L. Watanabe, Auditor-Controller
County of Los Angeles Department of Auditor-Controller
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 525
Los Angeles, California 90012-2706

Sergio Calderon

Mario Gomez

Maria Santilan

Re: Hub Cities Consortium Contract Review dated May xx, 2009 for fiscal year 2007-2008.

Dear Ms. Watanabe:

Serving residents of:

Cudahy

Huntington Park

Lynwood

Maywood

South Gate

This letter, along with its attachments, constitutes the response of the Hub Cities Consortium ("Hub Cities") to your draft letter dated May xx 2009 regarding the program, fiscal and administrative contract review of Hub Cities. The draft report will "Report."

Overview

Our response is organized to provide a response to each of the findings.

Billed Services/Client Verification Findings

Hub Cities agrees with Findings 1, 2, 3 and 4. We have shared the findings with appropriate personnel to ensure that staff implements the findings.

Performance Outcome Review Findings

Hub Cities agrees with Finding 5 and is working towards ensuring that the planned performance outcomes for the WIA Youth Program are met as required by the County contract.

Cash/Revenue Findings

Hub Cities agrees with Findings 6, 7, 8 and 9. We have already implemented a revised policy regarding incentive cards and are working to ensure that bank reconciliations are accurate, supported and signed. We are also striving to maintain an incentive card inventory equal to two months usage, although because it is sometime difficult to predict usage this finding has been more difficult to implement.



HUB CITIES CONSORTIUM A Public Entity

2677 Zoe Avenue • Second Floor • Huntington Park, CA 90255 • PHONE 323.586.4700 • FAX 323.586.4702

Wendy L. Watanabe
June 12, 2009
Page 2

Cost Allocation Plan

Hub Cities agrees with Findings 10 and 11. We have already revised our cost allocation methodology and have been reallocating the fiscal year 2007-2009 shared program expenditures based on this revised cost allocation plan. We expect to finalize this with 30 days and upon completion will provide it to the Department.

Expenditures/Procurement

\$114,101 – Shared Program Expenditures

The AC reviewed October 07 and January 08 monthly expenses. As noted earlier in the Report, the AC has recommended that Hub Cities provide a new cost allocation methodology. Accordingly, we have instituted a new cost methodology similar to other RWG agencies and when complete we will provide the Department with the revised allocation. It should be noted, however, that the AC has disallowed the entire two months—however the costs set forth therein are allowable expenditures. Accordingly we will provide the documentation in accordance with Finding 12.

\$157,777 – Facility Operating Costs

This amount pertains to the common area maintenance ("CAM") costs for the facility. We have previously provided the AC with a copy of the lease so that they can understand the manner in which these costs are charged to Hub Cities. We have requested the back-up documentation from the landlord and when received we will provide it to the AC. The issue, however, as set forth in the lease, is that the CAM costs are estimated costs based on the previous fiscal year. This is a contractual term set forth in the lease. The back-up documentation is not provided until 60 days after the end of the Fiscal Year.

\$55,407 – Unsupported Miscellaneous Expenditures

After requesting the additional back-up from the AC, a portion of this amount has already been cleared by the AC. The remaining amount at issue is \$29,229. As you may know, we have provided thousands of pages to the AC for various audits it has been conducting in the last two years. In the midst of doing so, we have misplaced or lost documents to support the various adjustments contained in this amount. Accordingly, we request that the AC find the adjustments allowed or alternatively we will repay the County \$14,816.22. We also ask the AC to review their files and determine whether they are maintaining original documents from Hub Cities and if so, to please return those to our files.

As to the remaining amount of \$14,412.57, the additional back-up from the AC indicates there was no invoice provided for Markel Insurance for Insurance services. After submitting the invoice it was noted that the coverage period were for 05/14/2008 – 05/14/2009. Hub Cities will repay back the disallowed cost for Fiscal Year 2007-08 and bill the allowable amount of \$14,412.57 in Fiscal Year 2008-09.

Wendy L. Watanabe
June 12, 2009
Page 3

\$3,584 – Payroll Expenditures

Hub Cities will provide the supportive documentation to maintain this expenditure.

\$50,603 – Miscellaneous Non-WIA expenditures

The AC has characterized the expenditures under this lump sum as un-allowable "non-WIA expenditures." This is not entirely correct. Incentive cards and various vendor payments are included in this cost item and these items are allowable WIA costs. Also included are monies received from our WIA partners for the facilities, which is used to offset costs incurred by Hub Cities (and therefore the County). We provide further details below.

First, as the incentive cards, \$17,097.50 pertains to unused incentive cards as of the June 30, 2008. Hub Cities agrees to repay the County and we intend to charge these cards to the FY 08-09 program.

As to the amounts for the EDD security and phone, which totals \$19,448, we will seek permission from the County to re-program the reimbursement. We intend to do so immediately and we hope that the County is able to respond to us in a timely manner.

As to the remaining amounts for various vendor payments and supportive services, we will seek permission from the County to re-program and/or off set the cost between vendor payments that were wrongly coded between the Adult and Dislocated program. Again, we intend to do so immediately.

\$22,320 – Late Payment received from EDD

Hub Cities will request permission from the County to offset this amount against future payments. We will do so immediately.

\$10,758 – Expenditures Incurred in FY 08-09

We agree with the finding and intend to reallocate this cost to Fiscal Year 08-09.

\$780 Travel Expenses

We agree with this finding and will reimburse the County this amount.

Summary of Response to Findings

Except as noted above, we agree to repay certain amounts or provide the documentation to support the expenditures as requested by Finding 12. As to the remaining findings (13, 14, 15, 16, 17, 18), we agree with those findings. We have already instituted a policy so that our per diem rate is the same as the County's and we will immediately seek approval from the County to offset certain payments against future payments as discussed above. We continually strive to ensure that all expenses are appropriately allocated and are in compliance with the County contract and the WIA guidelines.

Administrative Controls/Contract Compliance

Wendy L. Watanabe
June 12, 2009
Page 4

Finding 19 requires that we obtain automobile insurance as set forth in our contract. We will work with our insurer to obtain the coverage or request a waiver of this requirement from the County. We intend to do so within the next 14 days.

Finding 20 required that we obtain three quotes for software because it was over \$1,000. We will ensure that we obtain quotes for such items in the future and agree with Finding 20.

As for Finding 21, we will review and amend our policies to ensure that they are in compliance with regulatory guidelines. We intend to do so within the next 30-45 days.

Fixed Assets and Equipment

Hub Cities agrees with Finding 22.

Payroll and Personnel

\$4,184 – Payroll Expenditures

The AC substantiated \$600 in participant wages. Hub Cities will provide the supportive documentation to maintain the remainder of the expenditure. Accordingly, we agree with Finding 23 and will provide the documentation.

As for Finding 24, we are in process of working the Attorney General's office to obtain authorization to conduct criminal clearances.

Close-Out Review

\$25,328 – Close-Out Expenditures

After the AC exit conference a portion of this amount was cleared by the AC. The remaining amount at issue is \$17,786.88.

\$14,303.67 – Consultant Svcs.

Hub Cities will provide the supportive documentation to maintain this expenditure.

\$1,073.60 – American Express

Hub Cities will provide the supportive documentation to maintain this expenditure.

\$2,395.42 – Topaz Alarm

We agree with the finding and request that it be allowed as a stand-in cost in Fiscal Year 07-08.

\$753.61 – California Workforce Assoc.

We agree with the finding and request that it be allowed as a stand-in cost in Fiscal Year 07-08.

Wendy L. Watanabe
June 12, 2009
Page 5

\$942.02 – Tuition Reimbursement

We agree with the finding and intend to reallocate this cost on an equitable distribution benefitting all programs.

\$91.16 – Mileage Claim

We agree with this finding and will reimburse the County this amount.

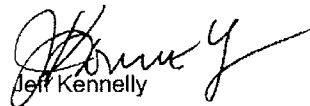
\$227.40 – Per Diem

We agree with this finding and will reimburse the County this amount.

Conclusion

In conclusion, we appreciate the opportunity to provide the AC with additional documentation to support the WIA program expenditures and work with the County on our various requests. We hope that we can resolve these findings in a quick and productive manner.

Sincerely,



Jeff Kennelly

Executive Director